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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

FCC - MAIL ROOM

Rate Regulation

MM Docket No. 92-266
MM Docket No. 93-215

**Attorneys for the Small Cable
Business Association**

Dated: September 13, 1993

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I. Introduction

On August 31, 1993, the Small Cable Business Association ("SCBA") filed Combined Comments and Reply Comments in MM Dockets 93-215 and 92-216 which, among other things, suggested several specific types of adjustments to the benchmark rates. At the time of the earlier submission, SCBA was in the process of obtaining data regarding various attributes of its members in order to quantify the amount of such adjustments.

While the information gathering and analysis are still being performed, SCBA has, based on preliminary information, been able to quantify some of the relationships which are summarized in this supplemental filing.

II. Benchmarks Should Be Increased To Recover High Fixed Costs of Headend Investment And Operation Costs

The average number of subscribers per headend contained in the database used by the Commission to determine benchmark rates was 11,035. The average number of subscribers per headend of SCBA members is 611¹.

A. Capital Investment In Headends

Despite the dramatic difference in subscribers per headend, the amount which SCBA members invest in constructing and operating a headend does not differ significantly whether the headend serves 500, 5,000, or 11,000 subscribers. On average, SCBA members responding to a recent survey have approximately \$122,400 invested in each headend.

Assuming the same level of capital investment by the systems included in the FCC database, the capital investment on a per subscriber basis would be \$11.10 compared to \$244.80 for a 500 subscriber.

¹Based on responses to a survey of SCBA member attributes.

B. Operating Expenses Per Headend

Expenses associated with headend operations are also primarily fixed costs, which do not vary with the size of the subscriber base. The average cost identified by the SCBA subscriber survey was \$22,747 per headend².

Assuming the same level of operating expense for the systems included in the FCC database, the annual operating cost on a per subscriber basis would be \$2.06 (\$0.17 per month) compared to \$45.49 (\$3.79 per month) for a system of 500 subscribers.

C. Benchmark Adjustment For Headend Costs

The current benchmark tables do not reflect the disparity of headend related costs between the average benchmark system and systems with fewer than 11,035 subscribers. The Commission should permit an add-on to the benchmark which would include the following components: (1) an amortization of the cost of the capital investment in the headend; (2) a return on the unamortized capital investment in headend equipment³; and (3) recovery of the operating expenses.

All of the adjustments would be computed as the difference between the amounts computed on a per subscriber basis for each system size and the per subscriber costs associated with an 11,035 subscriber system. In this way the amount of the add-on will not include the component which is already presumably included in the benchmark amount.

III. Benchmarks Should Be Increased to Recover Higher Capital And Operating Costs Resulting From Low Density Of Homes Passed

The weighted average number of homes passed contained in the Commission's database used to compute the benchmark rates was 59 homes per mile. This amount is

²The costs included compensation, utilities, repairs and maintenance and rent expense.

³See SCBA Reply Comments dated September 13, 1993 in MM Docket 93-215 for an analysis of an appropriate rate of return for small cable operators.

substantially higher than the densities in which many small businesses and small cable systems operate. The average density of homes passed per mile according to the SCBA membership survey was approximately 38. Even though this average is 36 percent less than the Commission's average, many of the SCBA members reported even lower densities on an individual basis.


SCBA recognizes that various other operators and coalitions have submitted detailed comments regarding density⁴. SCBA strongly urges the Commission to review these detailed filings and adopt an addition to the benchmarks to allow operators of low density systems to recover the higher capital and operating costs that they incur.

IV. Conclusion

Although SCBA does not at this time have empirical data to suggest other specific modifications to the benchmarks, nonetheless, SCBA strongly urges the Commission to take the other inequities in the benchmark system under consideration and use information available to it to craft solutions. When SCBA is able to complete the gathering of information which may be of assistance to the Commission, it will further supplement this filing.

Respectfully submitted,

**SMALL CABLE BUSINESS
ASSOCIATION**

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⁴See, e.g., *Reply to Opposition to Petitions for Reconsideration*, dated July 29, 1993, filed in MM Docket 92-266 by Televista Communications, Inc.